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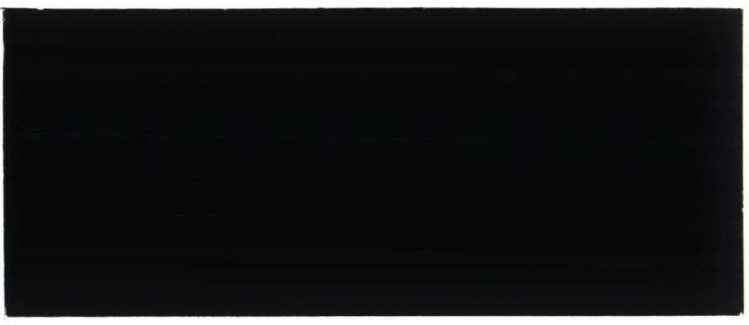
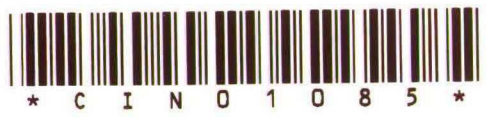
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DEPARTMENT OF ECONOMICS
RESEARCH MEMORANDUM

**PREVENTION IN SOCIAL SECURITY:
THEORY AND POLICY CONSEQUENCES**

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FEW 631**

Communicated by Prof.dr. A. Kolnaar



Prevention in Social Security: Theory and Policy Consequences

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Introduction

For some years an intensive political and social debate has been under way in the Netherlands on adjustments to the system of social security. The greatest attention has been focused in this connection on reducing the number of people off work owing to sickness or disability, increasing participation in the labour market and reorganising the agencies that administer the system. The assumptions on which this debate is conducted often imply a basic acceptance of the system as it stands. We believe, however, that an innovative attitude to the system is necessary in order to tackle the fundamental problems facing it. Reflection on first principles and the "modus operandi" of the system is required. Strengthening the preventive function in the social security system would appear to be an attractive option for system innovation.

This article is organised as follows. First we outline the problems facing the Dutch social security system and the schemes for employment disability and unemployment in particular. Afterwards, we try to define the concept of "preventive social security". In doing so, we indicate a number of reasons for strengthening prevention and identify some obstacles which may arise in this connection. Finally, we provide an outline of a more preventive approach for the Dutch system of social security (Van den Heuvel et al., 1991; Vrooman et al., 1991).

Problems facing the Dutch system

The Dutch system of social security faces a number of general problems. In the first place, the system has become very *costly*. Between 1960 and 1990 social security expenditure rose sharply both in absolute terms (from 4.5 to 132 billion guilders) and in relation to national income (from 11.6% to 29.3% NNI). The increase in social security expenditure is a result of price trends (rise in the average level of benefit) and the increasing number of claimants using the system due to the expansion of rights, adverse economic developments, and demographic changes such as the ageing of the population and a reduction in the average size of households (Ministry of Social Affairs and Employment, 1985, 1990).

In the 1980s, government pursued a policy of retrenchment. The measures adopted to curb the increase in expenditure were mainly connected with prices, for example reducing the percentage of benefits in the case of employee benefits and "untying" social security benefits from rises in wages and salaries. This was relatively successful: in the period from 1983 to 1990 public sector expenditure fell by eight percentage points and social security expenditure by three percentage points. However, the financial and economic objectives specified in the coalition accord of the present government (a reduction in the financial deficit ratio and stabilisation of the collective burden of taxes and social security contributions) imply that social security expenditure will continue to be under pressure in the 1990s.

In the second place, the system provides too *few incentives for beneficiaries* to take part in the labour market. Many elements of the social security system constitute a barrier to working. Participation in the labour market is sometimes hindered by bureaucratic constraints (organisation of the handling of individual cases), rational constraints (drop in income or loss of benefit rights) or socio-cultural constraints (habit, apathy, absence of a sense of duty, lack of social control).

In the third place, the *integration and control* of the system are inadequate. The system is a patchwork quilt or, to quote a senior Dutch civil servant, "a stratified rain forest in which each layer of schemes has been superimposed on the previous one and in which it is hard to discover any semblance of order or coherence" (Geelhoed, 1991). Owing to the lack of integration, the system is hard to control. The central government is also faced with a

powerful administrative organisation and is inclined to coopt it. The responsibility for major problems of policy is therefore partly delegated to employers associations, trade unions, and local government, even though it is not clear that it is within their power to solve these problems.

Finally, the system is *not sufficiently flexible*. All kinds of socio-demographic developments are making new demands on the social security system. The ageing of the population, the decline in the size of households, the growing importance attached to the rights of the individual and the increasing participation of women in employment (partly combined with the job of raising young children) cannot be solved in a flexible manner in the present system.

In addition to these deficiencies in the system, the schemes for disability and unemployment are subject to rapidly *increasing numbers*. In the Netherlands the proportion of people off work due to sickness or disablement is high in comparison with neighbouring countries. In 1990 there were 1.1 million claimants under the sickness and disability benefits schemes, which together cost 34.5 billion guilders. In addition, there was a hard core of long-term unemployed. In 1990 115,000 people had been unemployed for more than four years and the cost of the Government Unemployment Assistance Regulations amounted to 7 billion guilders. This high consumption of benefits is combined with a low level of participation in paid employment: less than half of all net working years of people potentially eligible to work are used.

Prevention in social security

In practice the definition of social security is often limited to compulsory statutory schemes which are financed from public funds and administered by public institutions and which afford a certain level of protection against loss of income as a result of social risks. However, in the theoretical literature a much broader definition is sometimes advocated (Cf. Berghman, 1986). According to this view, social security can be ensured not only by public schemes but also by semi-public and private schemes. Furthermore, social security can be

provided not only by the schemes which cover the traditional social risks (disability, unemployment, old age, death, maternity and responsibility for the care of children) but also by other instruments (for example through employment exchanges, rent subsidies and the provision of training facilities). In the remainder of this article we shall use the term social security in the sense of this wider definition, abandoning the common limitation to institutions and social risks.

What, therefore, is the place of *prevention* in such a broadly defined social security system? A current view formulated by Veldkamp (1978), a former Minister for Social Affairs of the Netherlands, is that the objective of social security is to guarantee a certain standard of living by:

- (a) providing a substitute for income when the source of income ceases to exist;
- (b) directly or indirectly providing for exceptional expenditure which would otherwise be hard to bear;
- (c) removing as far as possible the causes of the inadequate income.

The order of these objectives is noteworthy: measures concerned with prevention, recovery and reintegration are mentioned only after the "direct" forms of action in social security, i.e. income substitution and compensation.

The Belgian researchers Viaene, Lahaye and Van Steenberge (1983) have chosen a different approach. They reason that the real problem facing the social security system is human damage in the sense of loss of health and loss of earnings. A policy can respond to this in three different ways: prevention, repair and compensation. In the past the emphasis has been strongly placed on compensation, rather less on repair and even less on the prevention of damage. This is also evident from the quoted definition. Viaene et al. consider that these priorities are not correct. If one wishes to minimise the human damage, the order must in their view be reversed: in an efficient social security system prevention must precede repair and repair should take precedence over compensation. According priority to preventive measures in this way represents a radical shift of almost Copernican proportions in relation to the traditional view adopted in both policy and research.

Stages and localisation of prevention

Naturally, such a view, in which prevention is accorded a central place in the social security system, reinforces the need to define the concept of prevention. The following quotations from a recent study by Viaene et al. (1990) may serve as a starting point: "Each policy which is intended to avoid damage not yet caused is ... primary prevention." And "Policy aimed at speedy repair is ... better than a policy exclusively aimed at compensating the damage, with the result that one can speak in the former case of secondary prevention and in the latter case of tertiary prevention". And, finally, "Since there are ... no essential differences within prevention in the improper sense, it would perhaps be better in future simply to adhere to a dual system ..."

The view of prevention which emerges from these extracts gives rise to two observations. First of all, the distinction that is made between prevention in the proper sense (i.e. primary prevention) and prevention in the improper sense (i.e. secondary and tertiary prevention) seems rather unfortunate, as it appears to pass a very negative judgment on a policy aimed at repairing or compensating damage. The principle that preference should be given to primary prevention does not mean that secondary and tertiary prevention should be regarded as "improper" in a well-organised social security system.

If a risk cannot be prevented, it is perfectly justifiable to consider repair or compensation. It would therefore seem better to draw a distinction here between risk prevention and use prevention. *Risk prevention* is aimed at preventing social risks from manifesting themselves in practice. This can also be termed "primary prevention". In the case of *use prevention* the risk has already materialised and the policy is aimed at minimising the use of the social security schemes.

The second observation that should be made is that since it is fair to assume that it is better for human damage to be repaired sooner rather than later, it is definitely worthwhile to make a distinction between secondary and tertiary prevention. Secondary prevention can be defined as ensuring that the use does not become protracted. Tertiary prevention involves preventing lasting use of social security schemes. In this way the concept of prevention can be defined

in terms of three stages:

- . primary prevention or risk prevention: preventing social risks from materialising;
- . secondary prevention: preventing transition to long-term benefit schemes;
- . tertiary prevention: preventing continued use of benefit schemes.

The following table provides a concrete application of this framework of concepts for the Dutch disability and unemployment schemes, dealing in passing with a number of specific situations. Primary prevention is then all policy aimed at limiting the *inflow* into the Sickness Benefits Act (ZW) and the Unemployment Insurance Act (WW): measures which are intended to prevent people from becoming ill or unemployed are primarily preventive.

Secondary prevention relates to the limitation of the *through flow* to the Disablement Insurance Act (WAO) and the Government Unemployment Assistance Regulations (RWW). Measures intended to prevent the transition from short-term sickness and unemployment to long-term elimination from the labour market therefore come in the second prevention category.

Tertiary prevention is aimed at promoting the *outflow* from the Disablement Insurance Act (WAO) and the Government Unemployment Assistance Regulations (RWW) to regular employment. The third form of prevention is therefore intended to reintegrate the long-term unemployed and disabled into the labour market. If human damage is to be kept to a minimum, preference should in principle be given to primary prevention rather than secondary prevention, and secondary prevention should take precedence over tertiary prevention.

Table 1 Stages of prevention

	Risk prevention	Use prevention	
	primary prevention	secondary prevention	tertiary prevention
Disability	preventing disability risks (countering inflow of sickness scheme)	preventing long-term disability (countering through flow to disability regulation)	preventing lasting disability (promoting outflow from disability regulation)
Unemployment	preventing unemployment risks (countering inflow of short-term unemployment scheme)	preventing long-term unemployment (countering through flow to regulation for long-term unemployment)	preventing lasting unemployment (promoting outflow from regulation for long-term unemployment)

Aside from the different stages of prevention as shown in table 1, it is also possible to specify how the prevention is to be localised. In other words, where should prevention take place in the social security system? On the basis of a wide definition of social security, it makes sense to include not only the disability and unemployment schemes but also adjoining policy fields. In the context of prevention these fields are primarily working conditions and manpower services policy. If more is to be done in the way of primary, secondary and tertiary prevention of unemployment and disability, it is inevitable that attention must also be paid to the factors which determine whether people can function in the employment market. In a preventive system of social security, the benefit schemes are therefore complementary to the policy on working conditions and manpower services. In addition, other policy fields (education and welfare) are important if one wishes to create a more preventive social security system. For practical reasons, these are dealt with only in passing in the remainder of this article.

A second aspect concerns the specific points of action for preventive measures in the various policy fields: i.e. legislation, the insured persons, the entitlements, the way of financing and the administrative organisation. One can attempt to give shape to preventive measures at all stages and in all policy fields by drawing up rules, defining the target group, specifying the level and duration of benefits and facilities, adjusting the financing structure and organising the administration in a

particular way.

This produces a second table which indicates the localisation of prevention.

Table 2: Localisation of prevention

point of action → ↓ policy fields	Legislation	Scope of insured persons	Entitlements	System of finance	Administrative organisation
benefit schemes					
working conditions					
manpower services					
other policy fields (education, welfare sec- tor)					

Needless to say, drawing up these two tables does not give a definite answer to the question "what is prevention?" However, a combination of the two tables does provide an instrument for getting to grips with the complex concept of prevention and for use as a guideline for further discussion.

Reasons for prevention

The main reason for strengthening the function of prevention in the social security system has already in fact been given. Human damage can in principle best be limited by paying systematic attention to prevention. The following principles for a preventive approach can be derived from *theory*:

- (1) Policy must be based on a different philosophy and must accord priority to prevention. Preventing human damage (loss of work, damage to health) must take precedence. Only afterwards

does rectification of the old situation become relevant, and a benefit is granted only if there is no other alternative. This represents a reversal in the order of priority on which policy has been based hitherto.

(2) Policy must include preventive efforts at all stages. A distinction can be made in terms of policy between primary, secondary and tertiary prevention: preventing the occurrence of the risk, preventing transition to long-term benefits and preventing continuing use being made of the social security schemes. The first form can be described as risk prevention and the last two as use prevention (policy aimed at countering the use made of benefit schemes). Policy must give precedence to risk prevention over use prevention, and in the case of the latter secondary prevention should prevail over tertiary prevention.

(3) A broad definition of social security should be used. In this connection, the benefit schemes and the policy on working conditions and manpower services must be regarded as mutually complementary.

(4) All the possible points of action for prevention (legislation, the insurance population, entitlements, the financing system and the administrative organisation) should be considered.

There are not only theoretical but also a number of *practical* reasons for a more preventive system of social security. The problems in the system described above can perhaps be better tackled by means of a preventive system. We will briefly discuss a number of financial and economic, international and socio-cultural reasons for a preventive approach. In the first place, more prevention is necessary in order to guarantee that the social security system will remain *affordable* in the future. The coalition accord of the present government contains two important budgetary aims: a further fall in the financial deficit ratio of the central government and a stabilisation at the very least of the burden of tax and social security contributions. It follows directly from this that social security expenditure will be under pressure in the 1990s. If the financial deficit must fall at a time when the interest rate is actually rising, the expenditure on non-interest-related items must be reduced. The various items of expenditure then start to compete with one another: the expenditure on social security must then be weighed against other items in the budget and must also be compared with the costs of new policy (e.g. the environment and public transport). Any hope that social security expenditure might be spared was dashed in the result of the mid-term review carried out by the Dutch government in 1991. Of the total spending cuts worth 13 billion guilders, some 5 billion relate to social security. No less than 3.75 billion of this amount must be found by

curbing the growth in the volume of sickness and disability benefits.

How, therefore, can further spending cuts in social security be achieved in the 1990s? A stringent price policy was already pursued in the 1980s; continuation of this policy may cause social tension and a further break in the solidarity between those in receipt of earned income and those on benefits. Nor is there any certainty that measures to tackle the volume will be effective. It must be feared that measures to cut volume will merely result in treatment of the symptoms (passing on large numbers of disabled and unemployed persons to national assistance-type schemes) and will not tackle the root cause of the problem: an insufficient participation in the labour market (cf. WRR, 1991). From a financial and economic point of view it would therefore seem advisable to search for measures which explicitly strengthen the preventive function. By means of a preventive approach it should be possible to achieve what is most desirable in financial and economic terms: a strengthening of the public sector base (because the number of persons in employment rises as a result of a preventive policy) and a reduction in the claims on public funds (because the number of persons on benefits falls).

In the second place, there are *international factors* which make it desirable to strengthen the preventive element in the Dutch social security system: i.e. the relatively low level of participation and the creation of an internal European market. Less than half (47%) of the net potential working years of all people in the age bracket 15-65 are used in the Netherlands. The OECD average is almost eighteen percentage points higher, and the amount by which the Netherlands lags behind the Scandinavian countries is even more dramatic. What is particularly striking is the sharp fall in the participation of men in paid employment: thirty years ago the figure was still quite high in relative terms, but now the Netherlands is among the back markers.

The low degree of participation is a result of the traditionally low level of participation of women in paid employment (although this figure has been rising in recent decades), an extension of the average period of education for young people, a high percentage of part-time workers and the relatively high number of social security claimants among people aged over 50. In a social security system which lays greater stress on prevention, non-participation will be less common. If benefits are paid only if and for as long as employment or part-time employment is not possible, the net level of participation will rise, assuming that there is a sufficient increase in the number of jobs. If it is desired to raise the level of participation in employment, a more preventive social security policy seems an essential precondition. The continuing development of the internal market after

1992 is also a factor which may make it necessary to adjust the benefits system in a way which places greater emphasis on prevention. The creation of a European Monetary Union is of special importance in this connection. As a result, national budgetary policy will become subject to Community rules and the need to cut the costs of Dutch social security will become even more urgent.

In the third place, there are a number of *socio-cultural developments* which make a more preventive approach to social security desirable. The Dutch social security system may be relatively expensive, but it is greatly appreciated by the general public. The opinion survey carried out at regular intervals by the Social and Cultural Planning Office to chart cultural changes shows that in 1980 30% of the Dutch population still felt that the benefits were too high, given the economic situation. After the rounds of spending cuts in the intervening years, only 3% still believed this in 1989. The system may therefore be expensive, but the Dutch are attached to it. If one wants to limit social security expenditure, and at the same time maintain a high level of social protection for people depending on social security, the only solution is to reduce the "consumption" of benefits. The alternative, i.e. reducing the level of benefit, was tried very extensively in the 1980s. It follows that the only possibility seems to be to reduce the volume of benefits by means of preventive measures.

Noteworthy in this respect is a recent change of attitude in the *policy culture* towards social security. This is well illustrated by the words of prime minister Lubbers at a symposium of the Dutch Association of Social Security (NGSZ):

"We must recognise that here and there the social security has started to serve as a bogus solution. This is a criticism not of social security but rather of ourselves. In the past we tend to think: 'We've got it made because we have a well-developed social security system.' I think that we must once again try to inculcate in the younger generation a sense of rights and duties. This sounds terribly moralising, but it is not meant to be. We must see matters very practically, in other words as a question of effectiveness. How can we ensure that only a minimum number of people are left at the edge of society? How can we organise our system so that the great majority can participate in the life of society? How can we give people new chances? When it is formulated in this way, it is not a question of moral principles. It is then a question of effectiveness and of trying to keep democracy democratic and vigorous ..." (Lubbers 1989: 25)

Many politicians argue on the basis of this view that greater emphasis on the individual's own responsibility is desirable. Or, to put it another way, there is a need to strengthen the rights and duties of employers, employees and claimants. A system aimed at prevention would seem to fit the bill in this connection.

Obstacles to prevention

If theoretical and practical advantages are attached to a preventive system of social security, the obvious question is why social security was not organised along these lines in the past. First of all, it must be observed that the preventive function is not entirely absent from the Dutch system. The legislation governing working conditions operates first and foremost on a preventive basis, and the legislation on disability also now includes opportunities for primary, secondary and tertiary prevention, for example through the policy of welfare facilities. However, it has to be recognised that preventive elements of this kind are *not sufficiently central*: the policy and the efforts of the authorities which administer the system are geared mostly to the provision of adequate benefits, not to risk and use prevention. In addition, it is doubtful whether the preventive elements now available in the system are put to sufficient use.

But then there is the question of why there is a lack of prevention in the Dutch system, if there is so much to be said for it in both theoretical and practical terms. Although a full answer cannot be given in this context, the following points should be made.

First of all, there are *historical factors* which impede the transition from a benefit-oriented system to a preventive system. Social security was built up in part to meet the most pressing needs. At the beginning of this century the "social question" inspired the creation of the limited insurance arrangements for employed persons and the revised Poor Law. The social disintegration which many people feared after the Second World War led to the introduction of extensive national insurance schemes. The income function came to play a central role in both the social insurances and the social provisions, because at the time the schemes were drawn up, guaranteeing an adequate standard of living had the highest priority. Thus, the system of social security has grown historically to become a system for the provision of income. For many people it has also become

a system of acquired rights which may not be tampered with.

Second, there was the fact that for a long time the Netherlands could *permit* itself a system of this kind. With a substantial rate of economic growth and a low rate of dependence on benefits, it was quite possible to continue expanding the system of substitute incomes. However, in a situation such as in the last ten years, when growth is limited and the volume of benefits claimed is high, a society comes face to face at a given moment with the limits of its financial and social elasticity.

Third, preventive action is generally *more difficult* than the reactive action of automatically providing compensation for the damage suffered. It means that policy has to be based on a thorough analysis of the factors which lead to dependence on benefits, that the political system must have a clear view of the relationship between preventive measures and the payment of benefits and that the administrative agencies must reconsider how individual cases are dealt with.

Fourth, a *long-term philosophy* is required for a preventive social security system. Willingness to "throw out a sprat to catch a mackerel" is the kind of mentality needed in the case of preventive action: in the short term there is bound to be high initial expenditure with a low yield. Viewed over a longer period, however, a preventive system can limit the human damage much better than a benefit-oriented system. Strengthening the preventive function requires long-term vision of this kind and is therefore not a route which many politicians would automatically choose, accustomed as they are to thinking in terms of a four-year period of office.

Lastly, there is the *resistance* of government, the two sides of industry, the general public and the administrative agencies to fundamental changes in social security. Radical alterations to the system are difficult. But all too often a debate on first principles results in compromise schemes which fail to solve the original problem or solve it only partially.

Principles of a more preventive system

Despite these obstacles, it is in our view worthwhile endeavouring to introduce in the medium term a more prevention-oriented system based on the theoretical principles outlined above. In the

remainder of this article we expound a number of practical principles and describe the possible outline of a more preventive system. Needless to say, this should not be regarded as the only possible version of a preventive approach.

The strategy we advocate here is based on three cornerstones:

(1) The social security system must offer *selective performance*. Benefits should be provided only if income cannot be acquired through employment despite an extensive range of manpower supply instruments and intensive individual guidance, or if participation in employment is not socially desirable (for example, on account of old age). It is also necessary to prevent people from making a permanent claim to full benefit: in principle, temporariness takes precedence over continuation. In this way social security becomes more selective; benefits are provided only if the damage is unavoidable and irreparable. As a result of this greater selectivity, the level of performance can be maintained without pushing up the costs of the system unduly.

(2) The scope of risk-insurance must be limited on the basis of the position in the labour market of the various age groups. We would distinguish in this connection between three *target groups*. The concept of "social security" must be given a different meaning for:

- . Starters in the labour market (aged under 25). Young people are mainly threatened by the risk of long-term unemployment as they have too little job experience, have insufficient training or the wrong training or have at some point become relatively expensive. Their entry into the labour market requires separate guidance, with which the rights and duties of the social security system must be coordinated.
- . Active and potentially active people. The age group from 25 to 50 should in principle work. In their case, the social security system should be emphatically complementary to participation in paid employment.
- . Job leavers (aged from 50 onwards). It has to be accepted that in many jobs the ability to perform starts to decline at around the age of 50. The aim in respect of this age category must be to ensure that they continue to earn as much as possible for as long as possible. For them social security must guarantee an adequate standard of living and at the same time encourage them to delay leaving employment completely for as long as possible.

(3) Greater emphasis must be placed on *system integration* and *system management* in the legislation and in the administration and financing of the system. The different laws and rules must be integrated: uniformity makes it easier for the public to understand and accept the system and also provides a better basis for efficient administration. The administrative agencies must endeavour as far as possible to achieve an integrated approach to cases of disability and unemployment, removing wherever possible in the process the partitions between the various systems of administration. In the case of financing, it is especially important that the character and division of the amounts should coincide with a changed allocation of responsibilities.

These practical principles can be summarised under the motto: *preventive social security requires a selective, target-group-oriented and integrated approach.*

Contours of a preventive system

To implement this motto in practice one could have five social security schemes. These are briefly described below. The first three are intended successively to promote entry to the labour market for young people, to cover the risk of loss of earnings in the case of the active part of the population and to channel the routes for older people to leave the labour market. The fourth scheme guarantees the social safety net. Finally, supplementary schemes make possible additional insurance on a semi-collective or private basis.

(a) *A comprehensive scheme for job-starters (SJS)*

From 1 January 1992 onwards all municipalities in the Netherlands are obliged to administer the Youth Work Guarantee Plan. The basis of this plan is that all school-leavers under the age of 21 who have still not found employment after six months should be eligible for a scheme which guarantees them work in the public sector. To elaborate on this plan, it would seem desirable to work towards a comprehensive scheme for job-starters (SJS). Primary prevention must above all be the central feature. This could be achieved by arranging for SJS to consist of the following elements:

(1) introduction of a compulsory minimum level of training so that young people are assured of a

vocational qualification which offers them some chance of success in the labour market.

(2) integration of the unemployment regulations for young adults into the system of study financing. The present legislation is based on a strict distinction between young people who are unemployed and those following a course of study, whereas in practice this is sometimes rather arbitrary. To an increasing extent, young people are choosing the combination of work, study and non-employment which suits them best and are looking for favourable forms of financing. In the existing situation this can lead to substitution effects when the benefit provisions change (e.g. more study financing, less benefit). In the future it would seem advisable to integrate the income schemes in such a way that the distinction then made is between the general living expenses and the specific costs of education and training.

(3) adjustment of the administrative arrangements. From the point of view of system management it is desirable to introduce a clearer division of responsibilities. This could be achieved, for example, by providing that the Ministry of Social Affairs and Employment is responsible for all income transfers to young people and the Ministry of Education for supervising the compulsory minimum level of training and organising the manpower facilities for supplementary vocational training and help with finding employment.

(4) workfare elements must be promoted among young people as this can help them fit into the labour market. This could be done by encouraging young people on training courses to supplement their income with a part-time job and extending the Youth Work Guarantee Plan to all unemployed young people. In this connection, emphasis should be placed on job experience in the private sector.

(5) the labour costs of young people must be more closely coordinated with those of adults. There are a number of reasons for doing this. In the first place, the present gap between the statutory minimum wages for young people and adults means that employees become relatively expensive at the age of 23 and are therefore at risk of losing their job. In addition, a higher minimum youth wage provides a greater incentive for young people to work. If the labour costs of individual young people are so prohibitively high that they cannot find work for this reason, a labour costs subsidy should be permitted on very strict conditions.

(b) A comprehensive scheme for income-losses of the active population (SIA)

The principle which we would apply to people in the age group from 25 to 50 is that everyone

should work. This requires in the first place a proper system for regulating entry into the labour market (through SJS) and also a number of parallel measures enabling people to combine paid employment with bringing up children. If these conditions are met, it is essential to limit wherever possible the loss to the labour market of those actively engaged in it (other than due to maternity and parental leave). It is necessary to prevent people in the 25-50 age group from becoming permanently estranged from the labour market and to ensure that they re-enter the employment process as soon as possible. To this end the following suggestions can be made for a comprehensive scheme to cover the risk of income-losses for the active population (SIA):

- (1) The employee insurance schemes for sickness and unemployment (Sickness Benefits Act, Disablement Insurance Act and Unemployment Insurance Act) and the General Unemployment Assistance Regulation (RWW) must be combined to form the SIA. The schemes should be integrated in order to provide a uniform solution to the problem of potential loss of income. This would also facilitate system management and efficient handling of cases. The separate schemes for civil servants too should be incorporated in the SIA.
- (2) All SIA benefits should in principle be provided on a temporary basis. It would be preferable to stipulate a uniform period (one year) rather than to link this to employment history. After a careful check, the SIA benefits could be extended on a maximum of four occasions. Reasons for extension could be lengthy illness or the fact that the guidance arrangements (see 3 below) have not been completed or have proved inadequate. Reasons for not refusing an extension could be insufficient cooperation, improper use and refusal of suitable work. After the expiry of this period and in the event of non-extension, the person concerned would become reliant on the next set of arrangements (see d).
- (3) The term of the SIA benefit should be coupled to a very intensive course of guidance, in which the different competences in the area of manpower and employment services are combined in order to promote reintegration.
- (4) The administration of the SIA would require close coordination between and integration of administrative agencies in the fields of national insurance, national assistance and employment services.

(c) A comprehensive scheme for early retirement (SER)

One of the main reasons for the relatively low level of participation in paid employment in the

Netherlands is that so many older male employees leave the labour market early. People in this age bracket account for a large proportion of the disability benefits and all of the benefits under the early retirement schemes. In the present situation many older people leave paid employment completely as a result of onerous working conditions, a decline in their ability to perform work and the availability of a number of schemes for full retirement. For a number of reasons it is important to prevent as far as possible people in the over-50 age group from completely leaving the labour market. In the first place, there is the massiveness of the scale on which this now occurs: the retirement of large numbers of older people is causing financial problems for society and the situation is likely to become even more urgent as the population ages. In the second place, there are socio-economic motives: many older people still have a fund of "human capital" which they would like to use but for which there is not always place in the labour market. And third, for social reasons: a job is often an important factor in a person's integration into society and the loss of this role cannot always be offset by an active use of leisure time. In the case of older people attention should also be paid to how the demands on the social security systems can be reduced. At present the ground for leaving the labour market is often an unclear combination of disability (sickness and infirmity of the employee), redundancy (employers may consider that older people do not produce a sufficient return owing to declining productivity) and personal inclination (the employee feels that he has worked long enough). In these circumstances it would make obvious sense to combine the existing schemes into a single system covering the risk of early retirement, i.e. a comprehensive scheme for early retirement (SER). Such a scheme would reveal the extent of the early retirement problem and prevent all kinds of substitution effects. In addition, the combination of a comprehensive benefits scheme and the instruments for regulating working conditions and manpower services would make it possible to tackle the retirement problem effectively.

The SER could consist of the following elements:

(1) People could work less or perform other suitable employment (e.g. through demotion) if they are unable to achieve their former level of production because of a declining capacity for work. The SER should be seen as a scheme for income supplementation, under which the former level of income can be guaranteed to a certain extent (e.g. 80%). By a separation provision, the pension entitlement for the years up to the time of the change of job could be separated from that for the subsequent years: a drop in salary would not therefore automatically be fully reflected in the pension. If a person were to remain working, pension entitlement would continue to accrue.

(2) The extent of the reduction in work and the nature of the change of job would be dependent on a strictly medical/work-related assessment. Not the earning capacity of the employee but his or her employability would be the central factor.

(3) Rights could be derived from this assessment to an intensive period of individual guidance.

(4) The SER would also have no upper age limit; people could therefore continue working full-time or part-time even after the age of 65, subject to full or partial suspension of the old age pension and supplementary pension rights.

(5) The SER too would have to be administered by an integrated administrative agency.

(d) *The social safety net*

In addition to the three comprehensive schemes linked to age brackets, it would still be necessary to have a limited social safety net. For young adults the "watertight approach" adopted by SJS should in principle provide an adequate safety net. Special provisions would be necessary only for young people who are completely unable to work or study for social or medical reasons (e.g. those with handicaps). As regards SIA's target group (the 25-50 age group) the national assistance legislation would continue to apply to the jobless who do not or no longer have a right to benefit (rejected cases, non-extended cases, maximum benefit period). In their case it would thus be a follow-up facility.

Consideration should also be given to whether the risk of the death of a breadwinner should also be partially covered by the SIA. A surviving dependent under the age of 50 could, after all, be deemed capable of being active in the labour market in his or her own right. The present Act for Survivors Benefits (ANW) could be partly converted into a SIA transitional benefit in which survivors under the age of 50 are able to assess their possibilities in the labour market, making use of the full range of guidance instruments.

As regards people aged over 50, the social safety net would retain its function alongside the SER. This scheme guarantees a minimum income for people who do not utilise their assessed working capacity. The legislation for the survivors aged over 50 must be maintained for the time being, but could perhaps be gradually phased out at a later stage (per cohort, in accordance with the rise in labour participation).

(e) Supplementary schemes

In addition to the income schemes linked to age - (a) to (c) - and the social safety net (d), it should be possible for individuals and private or public employers to conclude supplementary income insurance schemes. It is necessary to prevent a situation in which these benefits are completely creamed off as a result of tax and social security contributions or means tests. At the same time, it should be ensured that these forms of private and occupational welfare do not encourage non-activity. The supplementary schemes could be administered by industrial insurance boards or private insurance companies.

Conclusion

In this article we have tried to stress the importance of a more preventive approach towards social security. We have sketched the contours of a more preventive system, which might solve some of the problems Dutch social security is facing nowadays. Of course, we do not pretend to have found a final or universal solution, but we are convinced that some major innovations of the Dutch system will be necessary during the 1990s. Perhaps this thesis is not to be restricted to the social security system of the Netherlands: a more preventive approach could prove useful in a number of other countries as well.

Summary

In most western countries the social security system faces several problems. The system has become too expensive, the incentives to take part in the labour market are too few, the integration and controllability of regulations is inadequate, and the system is rather inflexible. Our thesis is that these problems cannot be solved within the context of the prevailing narrow approach to social security. Policy-makers still tend to overstress the importance of compensating for income losses and undervalue the possibilities of preventive actions. In this article we propose a broader approach to social security, in which a key role is assigned to prevention.

In the first part of the article the prevention concept will be worked out. In the second part we

sketch the outline of a more preventive social security system. Throughout the article, the Dutch system serves as an illustration of current problems and future possibilities in social security.

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